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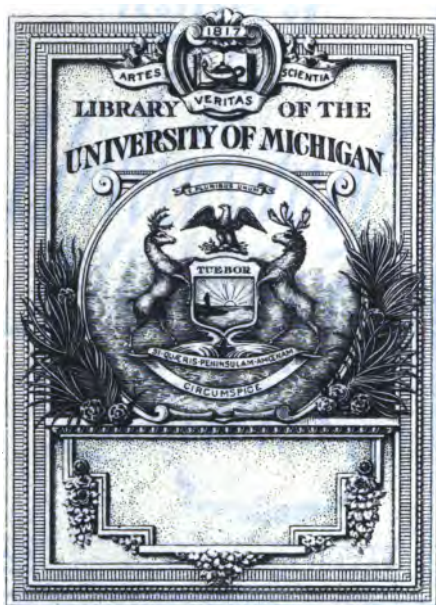
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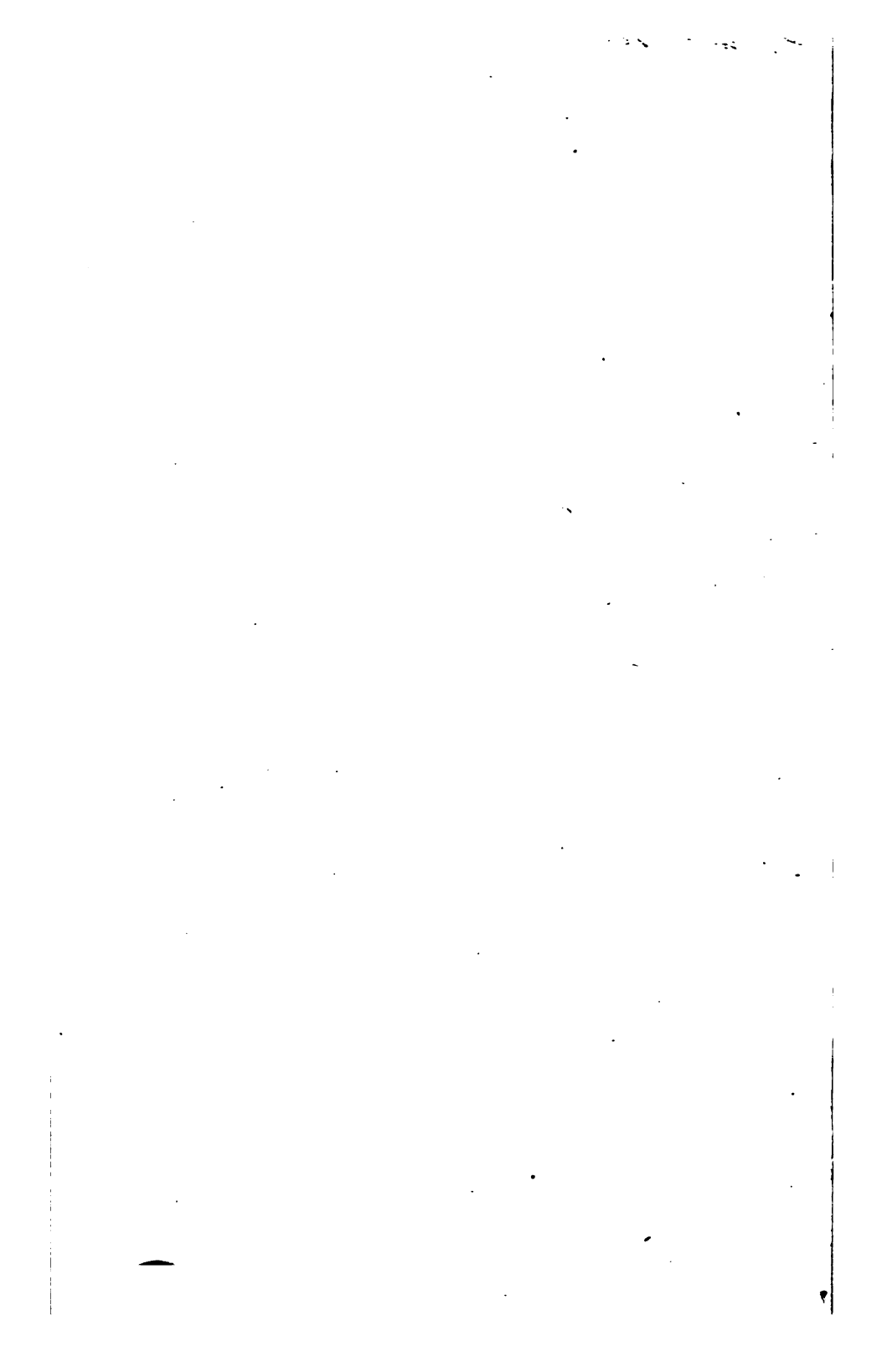
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LETTER

TO

CHARLES WOOD, ESQ., M.P.

CHAIRMAN

Of the Committee of the House of Commons

ON BANKS OF ISSUE.

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PELHAM RICHARDSON, PRINTER, 23, CORNHILL.

L E T T E R

TO

CHARLES WOOD, ESQ., M.P.

ON

M O N E Y,

AND THE

MEANS OF ECONOMIZING THE USE OF IT.

BY GEORGE WARDE NORMAN, ESQ.

L O N D O N :

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LETTER,

ETC.

PART I. ON MONEY.

DEAR SIR,

In laying before the public the following observations, in the form of a letter to you, I freely confess that I am mainly actuated by a hope that I may through the attraction of your name secure for them a degree of attention which I cannot flatter myself will be accorded to mine. Nor is vanity the simple motive which induces me to desire that a numerous body of readers may honour my arguments with a perusal; in addition to this natural feeling, I am further influenced by a firm persuasion that the general principles advocated in these pages, however feebly supported, are nevertheless correct, and, that if adopted by the public, and carried into effect by the Legislature, they would materially tend to the benefit of the community. In say-

ing this I claim for them no peculiar originality—most, if not all, of them have been already brought forward either by myself or by others—and I have made no scruple of appropriating the truth wherever I could find it.

Having thus explained my motives for undertaking my present task, and my especial reason for addressing myself to you, I should do injustice to my own sentiments was I not to give expression to those feelings of respect and gratitude towards you with which our intercourse during the proceedings of the Committee in the last Session of Parliament inspired me. On every occasion when we met, either in public or in private, I was treated by you with the greatest degree of kindness and courtesy, and I uniformly discovered an anxious desire on your part that my opinions should be fully and fairly brought forward in such a way as to render my position as a witness engaged in the difficult and not very agreeable labour of explaining my views upon questions respecting which the public mind is imperfectly informed, and by no means free from prejudice and error, as little irksome as possible. I could wish to enlarge upon this topic, but it is perhaps more prudent, and certainly more delicate, to refrain from further allusion to matters which are personal to myself, and I therefore proceed at once to my subject.

The vast expansion in the range of the various sciences which has taken place within a few years cannot fail to give rise to serious reflection. Life is not now long enough to enable even the most studious man to obtain a reputation for encyclopædical knowledge, and the time is rapidly approaching when renown in the ranks of learning and philosophy will be reserved for him who has mastered one of the many branches into which each separate science will then have divided itself. This tendency to expansion, though more peculiarly remarkable in physics, is also very conspicuous in the moral sciences. Adam Smith probably thought that he had left but little of the domain of political economy unexplored ; the public attention, however, is now engrossed by questions connected with one single branch of that science, viz. the currency, so refined and intricate as to have eluded his observation. The numerous pamphlets which appear from day to day on this subject exhibit, on the part of their authors, so great a diversity of opinion as to demonstrate the incomplete state of our knowledge. Many points still require elucidation, and one of these it is now my purpose to examine. I allude to that which has been termed by some writers the Auxiliary Currency, by which are meant the various processes employed for the purpose of dispensing with the use of coin or bank-notes in the adjustment of transactions, and which, in order to avoid the

risk of anticipating the reader's conclusions, I should prefer to denominate the means of economizing the use of money.

An inquiry into the means of economizing money must necessarily be based upon an exact knowledge of what constitutes money, its nature and functions. A short sketch, exhibiting my views on this point, will therefore form the first part of this letter. The whole subject is highly interesting as a matter of scientific investigation, but it is still more important at the present moment on account of its direct connection with the questions now pending in the House of Commons.

It is plain that the endeavours of Parliament to establish a sound system of legislation respecting the currency must necessarily fail, unless they be founded upon a correct and a complete view of the various particular items which unite to form the currency, and of the principles upon which its regulation ought to depend. Ignorance upon these points would probably lead to the enactment of laws, either more or less extensive than the objects they are intended to embrace, and thus produce one of the two opposing evils, neglect of remediable mischiefs, or an unnecessary, and therefore mischievous interference with the free agency of individuals.

In entering upon the proposed discussion, two courses are open to me ; either to give my own views in that order which I think will make them

most clear, without noticing the adverse opinions held by other persons except incidentally, or in the way of appended notes ; or, to treat the question polemically, and endeavour to elicit what appear to me correct opinions from an examination and confutation of those maintained by others. The first course I prefer, as it will save my readers the toil of wading through the vast and heterogeneous mass of documents of all kinds which have recently accumulated on most questions connected with the subject in hand.

In the ensuing pages I have usually employed the term "Money" instead of "Circulation" or "Currency," because the first is made use of by every body to designate the real universal representative of value and nothing else ; while the terms Currency and Circulation, although often used in a similar sense, are loaded with associations which tend unconsciously to mislead the minds of both author and reader. In their strict meaning, these words imply movement, activity, and it looks like a contradiction to apply them, for instance, to a bag of sovereigns forming part of a Banker's reserve, which may remain in his strong room for twenty years. Occasionally, however, they are convenient, and may be employed without risk of giving rise to a misconception of the sense in which the terms are used ; in such cases I have not scrupled to take them into my service.

I have already observed that in order to be able to enumerate the various contrivances used for economizing money, and to point out the effects they produce, it is previously necessary to understand the nature of money itself, and to form clear notions of the functions performed by it.

Man has been defined by some philosophers to be the trucking or bartering animal. Certain it is that no tribe has hitherto been discovered in so low a state as to be utterly ignorant of the advantage to be derived from the exchange of one commodity against another, so as invariably to confine each member of it to the use of things which he has either found, or made himself, or obtained by gift or plunder. One of the first steps in the advance from such a state of existence little elevated above that of the brutes must have been a discovery of the benefits which follow from an exchange of the surplus of any given commodity possessed by an individual beyond his immediate wants, for the surplus of some other commodity belonging to another person. The advantages thus obtained by both are too obvious to require elucidation. The subsequent effects which arise from a system of mutual exchanges, especially those connected with the division and combination of labour, have been explained by many writers, and need not therefore here be insisted on. If, however, the ingenuity

of mankind had stopped at a discovery of the benefits to be derived from simple barter, but little good, comparatively speaking, would have been obtained. The man who had a deer too much and had broken his only spear would often be unable to find a neighbour who had two spears, and wanted venison. The next great step then was the discovery of some commodity which all persons, at all times and places, would be ready to receive in exchange for those things of which they might possess more than they required. This commodity, thus possessing the property of universal exchangeability, and being also the sign and equivalent of value, is called Money.

It is probable that the commodities first used as money were such as possessed some great, general, and immediate utility, salt or skins for instance, both of which are even now so employed in some parts of the world. But a trifling advance in civilization would show that this money was deficient in some very essential qualities, the most important of these being fixity of value, indestructibility, and the power of being multiplied and divided with facility, so as to adapt itself to every amount of value great or small. It was at length discovered that in these, as in other respects, the metals are preferable to all other commodities; and, finally, that among the metals gold and silver possess all the desirable qualities in the highest degree.

The metals employed as money were first exchanged against other commodities by weight, but in process of time it was found that this plan admitted of great improvement, especially in their ready and immediate fitness for the purposes of exchange to any amount whether great or small, and in the facility of ascertaining their comparative purity; this improvement consisted in the introduction of a coinage, that is to say, in the issue, under the authority of the sovereign, of pieces of metal of a certain size, weight, and standard, in that variety best suited to the wants of the community.

The above sketch of the mode in which money was introduced in order to facilitate the exchange of commodities will enable us clearly to perceive its most essential properties:—1st. That it is a sign or representative of value. 2d. That it is a standard of value. 3d. That it is an accurate measure of value from the highest to the lowest degree. 4th. And as a corollary, That it is in universal demand and forms the general medium of exchange. The final result of its possessing these properties is that the civilized part of mankind, at all times and in all places, are willing to receive it to any extent in exchange for all articles which they may wish to sell.

Metallic money was the invention of a distant period, when the arts and sciences had made comparatively little progress. Succeeding ages have

endeavoured to introduce a further improvement by the employment of paper-money, which doubtless surpasses it in the two qualities of cheapness and convenience, but is deficient in the still more essential qualities, fixity of value and universal exchangeability. Upon paper-money more will be said hereafter; at present it is desirable to explain briefly some of the most remarkable incidents belonging to the precious metals when used as coin.

With a view to scientific precision, I should define money to be the commodity or commodities which form the universal sign or representative, standard, and measure of value, and medium of exchange; but the following definition, although less strictly scientific, would probably best express the notions commonly entertained of its nature. It is that commodity which by law and custom is universally received in exchange for other commodities and in payment of debts.

The value of gold and silver, like that of other commodities, depends upon their costs of production. If a quarter of maize in Mexico, growing on the worst land in cultivation, is ordinarily produced by an expenditure of capital and labour equal to that which will ordinarily produce three dollars from the poorest mine which pays its expenses, not including rent, the average price of maize will be three dollars per quarter. I say the average price, taking a number of years into

the calculation; for at each particular moment the exchangeable value of silver will be regulated, like that of all other things, by the relative proportion of the supply and demand.

In those countries which do not immediately produce gold and silver the value of those metals is determined by the amount of the goods produced in such countries which will exchange against them either in those parts of the world where the mines are situated, or in others where the gold and silver may have been obtained by a previous purchase. The value of gold or silver, when exchanged against one or more commodities, say cotton goods or hardware, in a country not producing these metals, being thus ascertained, the means of fixing the price of all other articles in that country is readily furnished by a series of comparisons between the cotton goods and hardware and such other articles. These comparisons, although apparently complicated and difficult, are readily effected, as it is the interest of all buyers and sellers that they should be soon and accurately performed.

The value of the precious metals in each particular country being fixed in the manner thus described, the whole quantity existing and applicable as coin or bullion is distributed among all the countries in question on a principle of competition, by which is allotted to each such a quantity as will afford to all the means of cir-

culating the commodities which they possess with the same proportionate facility, leaving their commercial intercourse with each other exactly upon the footing it would occupy was it simple barter.

If, in one of these countries, owing to an issue of Bank-notes, or to any other circumstance, the use of gold and silver is economized, or in other words, less gold and silver is required, general prices in that country will rise, gold and silver will become redundant, and the surplus will be exported and distributed among the other countries upon the principle which regulated their original distribution. Should an altered state of things, such as the restoration of a metallic currency, require an importation and permanent increase of the precious metals, they will be finally obtained from all the countries previously possessing them, other things remaining equal in about the proportion of the stock they each previously held. In the former case their general value will slightly fall, in the latter it will be somewhat raised ; but in neither case will the effect be greater in that country where the disturbing cause originated than in others. Speaking practically, the effect produced by this cause on general prices is inconsiderable, owing to the smallness of the quantity displaced when compared with the whole existing mass of gold and silver. Those who clearly perceive the force of the above reasoning will be able to appreciate

the futility of the arguments which attribute a fall in general prices to the extent of, say fifty per cent., to such measures as Peel's Bill, or the recall of £1 and £2 notes.

It thus appears that the value of the precious metals measured by commodities, or, in other words, the price of commodities measured by the precious metals, does not depend on their absolute or comparative quantities, except for a short period, but upon the cost of raising them from the mine, or of producing those articles by which they are purchased. Thus England might now possess only half as much gold and silver as she did fifty years ago, and have more commodities and of greater value to be exchanged, while the range of prices might now be higher than at that period, if by a more extended use of paper-money, or by improvements in the system of banking, a given number of exchanges can be adjusted at present with a less quantity of coin than was required for the same purpose at the former period. It also follows that although taxation, monopolies, and some other things affect prices, yet the principal reason why England is a dearer country than France or Germany, and Germany and France than Sweden or Poland, is, that a given quantity of English labour employed in production will furnish commodities for which more silver and gold is given in Mexico and Brazil, than for the result of a similar amount of French or German labour,

and that the latter possesses a like superiority over Swedish or Polish labour.

The exchange is said to be at par between two countries, if a bill at sight, paid for in one country by a certain amount of gold and silver of a certain fineness, will, when liquidated, produce the same quantity of gold and silver of the same fineness in the other country. Suppose that country *A*, from any accidental circumstance, say a subsidy, or the purchase of corn in consequence of a bad harvest, is called upon to pay a large sum to country *B*; in that case Bills of exchange on *B* will be first sought after. The amount of such bills will depend on the previous commercial intercourse, and under the influence of this extraordinary demand they will therefore rise to a premium; in other words, the exchange will fall in country *A* until it becomes advantageous to export coin or bullion instead of purchasing bills. The export of coin and bullion will cause general prices to fall in country *A* and to rise in *B*, and prices will continue to fall in *A* and to rise in *B*, supposing the debt owing to *B* not to be sooner discharged, until it becomes more advantageous to export goods than money. By the transmission of commodities originating in this way, the balance owing will be finally discharged.

A question may here be raised upon which a few remarks will not be inappropriate. What

are the necessary limits to that fall of general prices which is produced by an unfavourable exchange, and is required for its correction in a country whose currency consists of coin or convertible paper?

I have already explained that the first effect of an unfavourable exchange is an export of gold and silver, and that the result of this export will be to lower prices in the country that parts with, and to raise prices in that which receives them, and that this operation will continue until either the debt owing is discharged, or until it becomes advantageous to pay the balance still due in goods, rather than in money. The extent to which general prices may be affected by this process will depend upon a variety of circumstances varying so much in each particular instance, that it is impossible to give a definite and precise answer to the question; we can only point out what the circumstances are, and come to an approximate result. These circumstances then are—the extent of commercial intercourse between the two countries supposed to be concerned—the number, value, and variety of commodities which they habitually receive from each other—the facilities of transport, as affected by the seasons, ease of access, &c.—the impediments to the natural operations of trade arising from restrictive and fiscal regulations, and monopolies. Thus taking two productive countries, near each other and

united under one government, the trade between which is perfectly free, like Great Britain and Ireland, a very large debt due from one to the other might be liquidated, and a very small amount of gold and silver be employed in making the payment—the principal part of the debt being paid in goods—because the alteration in prices, though slight, would act upon a commercial interchange, immense in extent, and consisting of a great variety of articles. A debt due from England to Russia, supposing those two countries alone concerned, might occasion a much greater fall of general prices, before the equilibrium of the two currencies would be restored, and goods be sent instead of the precious metals to discharge any balance due. In this case the obstacles are distance, navigation closed for a large portion of the year, and artificial impediments the result of the absurd policy of both Governments. Between England and France, the state of things would resemble that existing between England and Ireland, did not the folly of man mar the bounty of Providence, and impose obstacles which render the channel an almost impassable barrier to the enterprize of the merchant. He who perceives with how small a derangement of prices a debt due from Liverpool or Newcastle to London, or *vice versa*, is paid, will be able to form a clear notion of the march of such a transaction between two distinct but

neighbouring countries, when no natural or artificial obstacles impede it.

There is one circumstance worth attention on account of its tendency to increase the transmission of specie under an adverse exchange. The articles of export which might replace gold and silver are usually few in number, speaking practically, and the increased quantity of such goods received by the creditor country lowers their price in it to an extent which, partially at least, lessens the effect produced by the enlargement of its currency.

In point of fact, a debt of the kind adverted to is paid by an export of goods not merely to the creditor country, but to others which have commercial relations with it. Thus England may send cottons or hardware to Cuba in payment of corn imported from Russia, and the latter finally receive her debt in Havannah sugar.

On the whole, then, it is impossible to answer precisely the question proposed. I have heard it assumed that £5 per cent. would be the maximum fall in general prices, that could arise from the necessity of making a foreign payment. My own opinion is, that, under certain circumstances, that limit might be considerably exceeded.

There is one fact in the existing state of things which has an important bearing on the matter now under consideration. I allude to the public debts owing by the different European Governments,

and to the State Stocks and Bank Shares of the United States. The certificates or other titles which represent these securities are readily saleable in all the great banking emporia, and afford an easy means of remittance, which neither weather nor fiscal regulations can obstruct, while their prices are peculiarly susceptible of impressions connected with the exchanges, and the state of commercial intercourse. Thus England may find the means of paying for foreign corn by a sale of Rentes at Paris, or of United States' Bank Shares at Amsterdam.

To guard against misconception I ought to observe that when a general fall of prices is talked of, it is not meant that every commodity falls absolutely, but that the fall is comparative,—that every commodity is lower in price than it would have been had not the currency been contracted. This is quite consistent with an actual rise of price in some articles, compensated for by a proportionally greater fall in others. In the foregoing observations it has been assumed that the currency is metallic—a supposition which excludes all cases in which its equilibrium is disturbed by over-issue, or other intrinsic circumstances. Gold and silver would never be issued in excess.

I must now say a few words upon the incidents peculiar to paper-money. Bank-notes are promises to pay the bearer on demand certain quantities of gold and silver, and they represent and

replace an equal amount of coin in all ordinary transactions. They are cheaper and more convenient instruments of exchange than coin, but they possess no intrinsic value. We see in them the first instance of the introduction of credit in the performance of pecuniary functions ; still it must be distinctly understood that the convertibility of paper-money, although essential to its proper regulation, is not absolutely required to render it a substitute for metallic money, or to secure for it a high exchangeable value. Thus, during the war, Bank of England notes were probably not more depreciated than an equal amount of gold would have been, could that amount of gold have been kept in circulation and its exportation have been prevented. In Denmark, before the attack on Copenhagen, a paper currency absolutely inconvertible, remained for many years almost on a par with silver; and other facts of a similar kind might be cited. The same result would always happen under parallel circumstances; the necessity which exists for a certain quantity of money of some kind or other will always secure to that whatever it may be, which is used as money, a certain conventional value, independent of its intrinsic value. That conventional value may be rendered greater or less, in proportion as the thing so used as money is more or less strictly limited in quantity. Hence it follows that the capacity of Bank-notes to discharge the functions of money is not necessarily

dependent upon the public confidence in their immediate convertibility into coin or bullion, although that convertibility be undoubtedly the best, if not the only, means by which they may always be kept at a proper amount. But now comes the important question,—How is the amount of Bank-notes at any given period to be regulated? Being merely a substitute for a certain amount of coin, it seems clear that they should bear some fixed relation to that which they replace. Should that relation be equality, or should they be always less or always more in amount than the coin they represent, or sometimes the one and sometimes the other? It is clear that, supposing them to be convertible at the will of the holder, they could not be kept permanently either higher or lower, and it seems impossible to imagine that any advantage could arise from introducing alternations in this respect either regular or irregular. Yet we have thus exhausted all the possible suppositions respecting the principles upon which a paper circulation ought to be managed, supposing it to bear some certain relation to metallic money; and the three last being rejected, we are compelled to fall back upon the first, which I conceive to be the true one.

Bank-notes, then, are, or ought to be, an exact equivalent for a corresponding amount of coin; they should increase or decrease at the same times, under the same circumstances, and

to a like extent as the metallic money which they replace. No paper currency can be considered perfect which does not fulfil this condition. It seems almost unnecessary to employ any further arguments in support of these propositions, especially as I have not found any authority, justly entitled to attention, who denies their validity when thus nakedly enunciated, although many cavils have been raised against some of the consequences which necessarily follow from them. I will merely remark that he who denies them is bound to shew that something may be found possessing the qualities of money other than cheapness and convenience in a higher degree than the precious metals: or to point out by what other and more effectual means than by an adherence to the principle thus laid down that comparative steadiness of value which attaches to the precious metals, and so peculiarly fits them for discharging the purposes of money, can be equally secured to Bank-notes.

The necessary consequence of making Bank-notes convertible, is to keep the amount of them upon the average nearly the same as would be that of the coin they represent, supposing that they did not exist. All the deviation that can arise from mismanagement will be that when the currency is at a maximum they will stand rather higher, when at a minimum rather lower, than a purely metallic currency would do, and that their in-

crease and decrease will be less regular ; in other words, that the oscillations in the circulation will be more violent and less immediately dependent upon the exchanges, which must, however, ultimately regulate them.

The ready convertibility of Bank-notes into coin, although not absolutely essential to their obtaining currency even at their nominal value, provided their amount be restricted by other means, being nevertheless the best means hitherto devised for regulating their quantity, it follows that convertibility is the first and most important quality that should belong to them. But, although the issuers be really solvent, it may still happen that great inconvenience may arise from their being liable to discredit. Now discredit is of two kinds,—political and commercial. By political discredit is meant that want of confidence in the public mind, which arises from the fear of civil commotion, foreign war, or other circumstances threatening the stability of the Government. By commercial discredit is meant the apprehension, more or less extensive, that the whole or a part of the issuers of Bank-notes from private or commercial causes, as distinguished from those of a public or political character, may be unable to meet their engagements. The cure for political discredit lies beyond the scope of these remarks ; against commercial discredit it is less difficult to guard.

On the whole, it would seem that a paper currency is perfect, practically speaking, if it be convertible—free from any risk of commercial discredit, and as little liable to political discredit as the peculiar circumstances of the country permit—and if in addition it be of exactly the same value at every moment as would be the amount of the coin whose place it supplies.

Upon the system of issuing paper money which now prevails in all countries, a metallic reserve is maintained, usually much less than the amount of notes issued, but such as experience shows to be sufficient to meet all demands under ordinary circumstances. Upon this plan it is obvious that the power of redeeming the paper sent in for payment depends upon the assumption that the amount remaining in circulation will never be reduced below a certain minimum. To meet the danger arising from this circumstance, it has been proposed by some persons to issue only notes, which should be represented by a reserve, consisting of an exactly equal amount of coin and bullion. Under such an arrangement there would still remain an economy over a metallic currency, consisting, 1st, in the saving of wear on an amount of coin equal to the amount of bank-notes required to replace them; 2ndly, in the expense of coinage upon the portion of the reserve kept in the state of bullion; the loss compared with the existing system would

consist in the diminution of the active capital of the country, arising from the excess of the proposed reserve over that maintained at present, the return upon which, if employed productively, can hardly be computed at less than 8 per cent.

Another point connected with paper-money requires our attention, viz. the character of its issuers: these may be one or many; the Government, or some one body exclusively authorised by it; or joint-stock companies, and private individuals, subject to more, less, or no legislative regulation. It seems impossible to deny that in all cases where the discretion of the Legislature is unshackled, a single issue under the strict control of public authority is to be preferred; that under the most favourable circumstances paper money, issued by numerous competing bodies, can never possess the desirable qualities in greater perfection than when issued by a single institution; and that, speaking practically, this degree of perfection is almost unattainable by a system of multiplied issuers. It is indeed not a little remarkable that, while in civilised times all governments have kept the mint, that is, the power of issuing metallic money, in their own hands, the issue of paper money, so much more liable to abuse, has been abandoned in so many instances to the unrestricted action of private speculation.

*in order
to secure
against
concealment*

An unfavourable exchange may arise in two

ways, either from a cause extrinsic to the currency, such as foreign expenditure on the part of the Government, the accidental cessation of demand for some article of export, or the sudden want and consequent importation of an unusually large quantity of some commodity, the produce of other countries, or from circumstances connected with the currency itself, which cause the issue of Bank-notes to a greater amount than that of metallic money would be under a similar state of things. On the other hand, with a paper currency it is not uncommon that the circulation should be reduced in an unnatural degree; this usually happens either when discredit and insolvency on the part of issuers has prevailed extensively, as in England during the early part of 1826, or during an influx of treasure arising from a favourable exchange. It does not probably often happen that an unnatural rise of prices originates in the first instance from an over-issue of convertible paper; but it more frequently happens that during an efflux of treasure the natural and corresponding fall of prices is interfered with by the issue of notes, arising out of a demand for banking accommodation. On the other hand, during an influx of treasure, prices are often unnaturally depressed, both in point of extent and of duration, by the recall of notes once issued on coin or bullion. Here again the influence of the banking principle is felt. Interest, that is, the price of money in the market, being

low, it is sparingly supplied by those from whom it emanates.

It is plain that it would never be the interest of anybody to issue metallic money in excess, because the coin can never exchange for a greater amount of commodities than the metal of which it is formed, has cost—plus the seignorage, if a seignorage be taken—it yields, therefore, in ordinary circumstances no profit. With Bank-notes the case is widely different; they yield a very considerable profit, and it is the interest of their issuers to keep in circulation as large an amount as possible. Hence one source of the danger of an over-issue. Another is found in the nature of the bodies from which they emanate. In this country, the Banks of England and Ireland, Joint-Stock, and Private Banks are not merely creators of paper money, but also bankers in the proper sense of the term—dealers in money, and in this capacity they are exposed to a strong temptation to avail themselves of their privilege as issuers in aid of the other branch of their business. When the prices of goods rise or when there is a struggle in progress against an impending fall of prices, the customers of a banker usually call upon him for increased assistance, which it is difficult for him to refuse, while if at the same time interest rises, the prospect of enlarging his profit is an additional inducement for him to enlarge his advances, and to aid his banking resources by an aug-

mentation of his circulation. Now a rise in prices frequently precedes an unfavourable state of the exchanges, and a struggle against a fall of prices, and an advance in the rate of interest, are its ordinary concomitants. Thus we see that the first stages of an export of treasure are generally characterized by circumstances, which tend to cause an augmentation in the amount of bank-notes, while with a metallic currency they would necessarily be accompanied by a reduction in the circulation, as in that case all the coin exported would be so much taken from it. It appears then that with a mixed currency like that which exists in this country, the tendency of things, when the exchanges are unfavourable, is exactly contrary to what would occur had we only coin. During a favourable exchange it is equally so, for then with a metallic currency the gold imported would be added to the circulation ; while at present, in such a state of things, prices fall, and the rate of interest being usually low, loans are redeemed, advances are paid off, and the paper circulation is thus kept down. The experience of the last few years furnishes us abundance of facts confirmatory of this theoretic view of the subject.

Thus, then, we see that upon our present system there is and must be a strong tendency in our circulation, which is regulated upon banking in opposition to currency principles, to increase and decrease precisely at those periods when it

ought naturally to decrease and increase; and this evil seems to me incurable by any other means than a complete separation between the business of issue—a function of the Sovereign—and that of the banker or money-dealer. To examine the palliatives that have been suggested would carry me too far, and I must therefore proceed to another part of the subject.

These general considerations are not without their practical importance, as may be seen by reference to the Reports of the Committees of 1832 and 1840. In the evidence given before them, various tests for ascertaining the sufficiency of the currency are either openly advocated or indirectly assumed. Thus we are sometimes told that the circulation is too low, because its amount is less than at some former period; or because the rate of interest is high or prices are low; or because there is some peculiarity in the state of bankers' deposits; or because merchants and manufacturers are distressed, and it is the duty of the managers of banks to come to their aid by liberal discounts to be effected by an expansion of their issues. Such opinions necessarily arise from what appear to me to be incorrect views in the minds of those who entertain them, as to that which constitutes a natural amount of circulation, and as to the test by which its sufficiency at any given period ought to be ascertained. The only real test is the state of the exchanges, which

express accurately the relations of the currency of one country to those of others, and tell us whether it be in exact equilibrium—above that point, or below it. The currency is always sufficient when the amount of it is precisely the same as would be that of a metallic currency under similar circumstances, and always in excess or deficient when above or below that point.

I will conclude this first part of my subject by a few remarks on the distinctive differences, other than those already noticed, between metallic and the ordinary varieties of paper-money. The metallic money carries its own value with it, its proper amount is regulated by a sort of self-acting agency, and it is in demand everywhere, not merely in the country where it is issued. It is, in short, an universal representative of value and medium of exchange. Notes, even if emanating from national institutions like the Banks of England or of France, only circulate in their respective countries, while the notes of private issuers are confined to a limited district in each country. Both require special regulation in respect to their amount; both, however, within their respective spheres perform all the functions of metallic money, and could not be withdrawn without producing an influx of metallic money to a nearly equal amount.

Having thus given a short and imperfect sketch of the nature of money, the functions it performs,

and the chief incidents belonging to it, I shall proceed in the ensuing section to describe the principal means of economizing the use of it, which have been introduced into all highly civilized countries, and which are in such very extensive use in this country.

PART II.

ON THE EXPEDIENTS FOR ECONOMIZING THE USE OF MONEY.

Having endeavoured to impress upon my readers a clear and definite conception of the true nature and properties of money, I now proceed to examine the most important of the contrivances usually resorted to for the purpose either of dispensing with the use of money altogether, or of diminishing the quantity of it, which is absolutely required for the adjustment of existing transactions. On these contrivances one general remark may be made, as it affords a ready and practical, if not a strictly scientific, distinction between such substitutes for money and that which, as I conceive, really constitutes money, viz. coin and Bank-notes. If Bank-notes are withdrawn from circulation, their place must necessarily be supplied by an equal amount of coin; but the abolition of any or of all the contrivances for dispensing with the use of money will not necessitate the introduction in their place of an equal amount of coin or Bank-notes.

Again, these contrivances are resorted to at all times as the means of adjusting an immense mass of transactions, of paying for a vast amount of commodities, of liquidating a large proportion of the current debts; but they cannot, like money, be made applicable as an universal instrument for every purpose of this nature: although they may be made the means of adjusting many transactions, they will not be adequate for that purpose in all cases, nor will they pay for all commodities, nor liquidate every debt. Moreover, their capability of being thus employed does not, like that of money, continue unimpaired by repeated use, through an endless succession of transactions. In many cases they cannot be applied at all; in others they are often very imperfectly applicable, either because they are only the medium of exchange in the first instance, while for the final and real adjustment of the transaction the use of money must still be resorted to, or because they are susceptible of being used in part only, and not to their full amount. Thus, taking bankers' deposits as an example—all below the minimum of each separate account is totally inoperative as an instrument of exchange; and to render any portion of a deposit applicable in making a payment, it is requisite that the payee should have an account with the same banker as the drawer, or with some other banker who has to make a

Strenuous

payment of equal amount to the former banker, such payment affording the means of a set-off between them. Now it is plain that in a vast variety of transactions none of these conditions may exist. Again, each of these contrivances, except simple barter, supposes the existence of money; here is another of those distinctions which may be called empirical, but which are, nevertheless, very important, as indicating an essential difference.

I shall enter into a more detailed examination of these matters hereafter; for the present I must content myself with urging upon my readers the necessity of never losing sight of these circumstances, in which it must be admitted that we find very marked and practical distinctions between money and the substitutes for money.

In order to obtain money it must be purchased; some commodity must be sold or service rendered, for which payment is received in it. This is plainly true of the precious metals, and equally so of Bank-notes, except as to the issuer, whose only profit arises from their being less expensive to him. As money is therefore a very costly instrument, all men are under a strong inducement to accomplish the purposes for which money is requisite with the least possible quantity of it, and to substitute in its place whatever, costing less, may serve equally well to perform the business in hand.

The substitutes for money, when closely examined, generally involve the use of credit in some shape or other. The transfer of a debt is accepted by the creditor party instead of a payment in money, and the final liquidation of the account is usually brought about by means of a system of transfers and sets-off sometimes of a very complicated kind, the general result being that money is resorted to, only for the discharge of the small balance which may finally remain after an immense number of opposing items have discharged each other.

Thus all the existing expedients for economizing money, when reduced to their simplest form, arrange themselves under two heads—they are sets-off, or transfers of credit. Under the first head are placed, barter, truck, the Clearing-House, and all similar contrivances. Under the second, deposits, cheques, and all other transferable debts and securities, while bills of exchange partake partly of the nature of a set-off, and partly of that of a transfer of credit. When balancing each other, and leaving only a small difference to be paid in money for the adjustment of debts between different countries or places, they act as a set-off. When given to a payee, or transferred by endorsement subsequently, they are in fact a transfer of credit.

Actual barter probably long survived the introduction of coin. By actual barter I mean the

*yes—but
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exchange of one thing for another without any reference to the money-value of either. This, however, has ceased to exist in civilized countries to any appreciable extent, but a modified system of barter is still in action everywhere, and enables those who resort to it to dispense with the use of a vast amount of money: I allude to the running accounts between various individuals and classes, which are usually adjusted and the balance discharged once a year or oftener. Thus most farmers have such accounts with their millers, grocers, butchers, wheelwrights; if they own cottages, the rents are often set off against labour done, and a portion of their own rent is frequently paid by them in corn or hay furnished to the landlord. Most tradespeople have similar accounts with other tradespeople, and there are few of my readers, whatever may be their station, who will not, when their attention is properly directed to the point, perceive that some portion of their income or expenditure is received or paid through the medium of barter. What is called in the manufacturing districts the truck system is an instance of modified barter, which at different times has occupied much of the public attention.

It is impossible to calculate the amount of transactions annually adjusted by this process, but it is doubtless very considerable, and upon the principle involved in certain current doc-

trines, I cannot perceive why this matter should not be investigated by the Bank Committee; it might indeed justly be said that its valuable time would thus be wasted, and that no useful legislative measure could be the result; but surely as much might be urged with respect to points of inquiry which have already occupied much of your time.

Bills of exchange next claim our attention. These convenient instruments, whose utility, simple though they appear to us, gives them a place among the most beneficial contrivances of human ingenuity, were unknown to the ancients. They are said to have been invented by the Jews in the middle ages, when that unhappy people were the objects of the most relentless persecution, and when it was absolutely necessary for them to veil their money affairs in all possible secrecy, and to avoid the transmission of specie from one place to another whenever that operation could be dispensed with. Now, such is one of the effects of the employment of bills of exchange. They balance one another up to a certain point, and leave only the excess on one side of an account to be liquidated in money. Thus, take the transactions between London and Hamburg, and suppose that in the course of a year each city may have a creditor account with the other to the extent of ten millions of pounds sterling. This being the case, those merchants at Hamburg who owe money in London will buy bills of their neighbours who

have money to receive in London. At the latter place a corresponding process will go on, and the result will be that the whole of this immense mass of transactions will be adjusted without any transference of the precious metals from the one city to the other. Should it happen that on a balance Hamburg has a debt to receive from London, and that the latter has no means of reimbursement by drafts on some other place, say Paris or Amsterdam, which may have money owing to them at Hamburg, the result will be that in London the exchange on Hamburg will fall. Bills on that place will bear a premium, which will increase until it exceeds or at least equals the expense of transmitting gold and silver, in which the sum due will be finally paid, unless the fall in the prices of goods in England and the rise in the prices of goods at Hamburg should produce an increased export of commodities from the former, and should thus furnish a substitute for the precious metals to a greater or less extent.

But further, the bills of exchange thus drawn frequently change hands, and every endorsement upon them conveys a sign of value from one person to another. This is an example of the other mode in which they perform pecuniary functions.

It must at once be perceived how enormous is the economy in the use of money arising in the way thus described; it finds place between

almost every considerable town of the same country and between the great commercial emporia of all countries, as well as in the adjustment of transactions between individuals, and its extent may in some degree be estimated by the calculations of Mr. Leatham, who considers the amount of bills annually drawn in the British islands to exceed five hundred millions. Upon these calculations, however, implicit reliance must not be placed.

But it does not therefore follow that bills of exchange are money. The prices of commodities which they represent are tested at every moment by the real value of these commodities in gold and silver, or the substitutes for gold and silver, bank-notes, upon the principles explained in the last section; and no multiplication of them as to amount, no increased facilities in their employment, no diminution in the quantity of the circulating medium employed in working the machine of commerce can, except for a short period, keep the level of general prices elevated above their real money range. Neither can an increase in the amount of bills of exchange be resorted to as a substitute for a diminishing amount of coin and Bank-notes. When the amount of metallic money in any country is under a process of diminution by the action of the exchanges, Bank-notes might be substituted in its place, and thus an undue amount of circulation might be maintained,

while the whole of the metallic money was drained off to supply the foreign demand. But bills of exchange and the other economising processes are not susceptible of increase in a similar manner. When the aggregate amount of coin and Bank-notes is undergoing a diminution, an increase in the use of bills of exchange to supply the place of the coin and Bank-notes is, practically speaking, impossible. So far from increasing under such circumstances, they will necessarily, and without any legislative interference for the purpose, decrease probably in a greater ratio than the coin and Bank-notes. The reason of this is clear; the economising processes all depend upon credit in some form or other. A diminution of the amount of coin and Bank-notes necessarily produces a contraction of credit, and hence follows a restricted use of the economising expedients.*

* Mr. Ricardo in his "Proposals for an economical and secure currency," when remarking on the periodical inconvenience which arose at the period in which he wrote from the contraction of the circulation immediately before the dividends, observes, "The very great perfection to which our system of economizing the use of money has arrived by the various operations of banking, rather aggravates the peculiar evils of which I am speaking; because when the quantity of circulation is reduced in consequence of the improvements which have been adopted in the means of effecting our payments, the abstraction of a million or two from that reduced circulation becomes much more serious in its

There are, moreover, many transactions which cannot be liquidated through the medium of bills of exchange, for these are payable at a fixed place, usually at a distant date, and are drawn for amounts, which, although convenient to the drawer, acceptor, and payee for the particular purpose in each case, would be inconvenient to other parties, and for the general purposes of pecuniary affairs. They further require a knowledge on the part of those who receive them as to the solidity of the names which appear upon them; and, finally, in most cases they can only be transferred by an endorsement, which involves the credit of the endorser. In all these particulars they differ from bank-notes.

Let us examine this matter a little further. A buys cotton of B at 10 per cent. in advance on the previous price payable at three months, and gives his acceptance for the amount. At the close of this period or after one or more renewals the bill must be paid out of the currency in existence, and if there is not enough money to sustain such a price, a fall in prices must ensue, and B

“ effects, being so much larger a proportion of the whole
“ circulation.”

It is plain from this that Mr. Ricardo did not conceive it possible that a contraction in the amount of the current money could be counteracted by an increased use of the economizing expedients.

will suffer from his bargain. But further ; if the enhanced price has become general, a stimulus will be given to the importation of cotton, a check to its exportation, or to that of articles manufactured from it, and the final result will probably be a fall below the original price, commensurate with or perhaps greater than the previous rise. This imaginary case may be taken as a fair representation of the usual effect of bills of exchange on price. It supposes, indeed, that the standard is left unaltered, that the economy introduced is not so sudden as well as so great, that the real exchangeable value of gold and silver is altered by the change in the relation of the supply to the demand, but on this little need be said. Nobody supposes that the products of the American mines have become cheaper of late years. The use of the economizing expedients is always sufficiently slow in its progress to prevent any immediate or violent enhancement of prices ; in fact, it barely, perhaps, suffices to counteract the depression which would otherwise arise from the increased number and value of commodities and services bought and sold, and the consequent necessity for an increased performance of pecuniary functions.

A large proportion of bills are drawn and paid which have no effect on the currency whatever. Thus let A sell coffee to B at three months and at a fair current price, draw for the amount and

keep the bill in his portfolio until due ; it is clear that the result will be the same as if he had given a simple credit for the same period. The economy in the use of money will commence when he makes a payment to C by means of an endorsement, and will be repeated as often as the bill, by a repetition of this process, changes hands. Thus, even purchases on credit, at advanced prices, against which bills are drawn, may be made without any new creation of money, and *without* the necessity of employing an economizing expedient.

The nearest approach to the performance of monetary functions through the medium of bills of exchange, is probably to be found in those which circulated formerly to so large an extent in Lancashire and the adjoining parts of England, and which, although now less usually employed, are still well known in some districts. These bills were received and paid away by most bankers, were habitually made use of for ordinary business-payments, and passed through a great many hands. Still to such bills of exchange, the following observations in the Report of the French Chamber of Deputies on the renewal of the Charter of the Bank of France, which I agree with, and cannot improve, are fully applicable. I quote from the translation in the Appendix to the Report of your Committee :

“ Every engagement in writing to pay a sum
“ due, might become a substitute for money.

“ The substitute has acquired some of the
 “ advantages of circulating money, when, as in
 “ the case of the promissory note payable to
 “ order, or bill of exchange, it can be trans-
 “ ferred by the easy and rapid mode of endorse-
 “ ment.

“ But what further difficulties ! it does not
 “ represent at every moment for its holder the
 “ sum for which it was drawn—it is only to be
 “ paid at a distant time. To realize it imme-
 “ diately it is necessary to part with it. Shall
 “ we find any one with confidence enough to
 “ take it ? We can only transfer it by guaran-
 “ teeing it by our signature ; this in an eventual
 “ obligation which we ourselves contract, and
 “ under the weight of which we feel our credit
 “ embarrassed up to the day when it becomes
 “ due. We are not always disposed to reveal
 “ the nature of our affairs by the signatures
 “ which we put in circulation.”

It appears then, on the whole, that bills of exchange diminish the necessity for resorting to the use of money by facilitating sets-off and transfers, and that they, perhaps, occasionally for a short time, uphold a partial range of prices, not warranted by the amount of money in circulation ; that in this case they are the offspring of credit, growing with its growth, and perishing with its decay, but that they possess no power of maintaining prices for any considerable period at a higher level than that fixed by the precious

✓ metals. The apprehension entertained by some persons that an attempt to contract the circulation could be seriously obstructed by an augmented use of bills of exchange seems to me quite chimerical.

There is one incident belonging to bills of exchange which ought not to be overlooked. They are the favourite security of the money-market, the commodity which the banker most readily buys or sells, and on the security of which he most frequently borrows or lends the funds in his hands, and they are the usual resource of a large class of borrowers; hence it arises that their increase and decrease, other things being equal, is usually accompanied, the first by a rise, the latter by a fall in the rate of interest.

We have now arrived at what may be specially denominated the banking expedients for economizing currency, because they grow out of that system of transacting money affairs on which the business of the banker, as carried on in this country, is founded.

The banker is a money-dealer; it is his particular business to receive and to pay out coin and notes, to buy or borrow them when and where cheap, and to sell or lend them when and where dear; and it is a great object with him to carry on his trade, that is, to adjust his complicated transactions, with the smallest pos-

sible amount of money. For this costly instrument, the use of which necessarily involves a corresponding loss of profit to him, to whatever extent he is obliged to use it, he naturally studies to introduce substitutes, of which credit in its various forms is one of the most efficacious. The sphere of his transactions bears the general name of the money-market; in it the price of money is marked by the rate of interest, which varies from time to time, according to the varying proportion between the wants and means of borrowers and lenders, and to the quality of the security that may be offered.

Here it becomes necessary to point out clearly one of the most fruitful sources of error to be found in the whole field of inquiry subjected to the investigation of your Committee. I allude once more to the confusion which so often intrudes itself into speeches, pamphlets, and evidence, between the state of the money-market as indicated by the rate of interest, and that of the currency as indicated by the foreign exchanges. Thus, it is sometimes inferred that the currency is too much restricted because interest is high, sometimes that it is in excess because interest is low, when perhaps at the first period gold is leaving the country, and it is therefore evident that, in order to place the currency in equilibrium with that of other countries, a further reduction must take place ;

while at the latter period gold is coming in, is flowing from foreign countries, where it is cheap, to this country where it is dear, and where, consequently, coin, or its paper representative, Bank-notes, are comparatively low in amount. The truth is, and it cannot be too strongly pressed upon the public attention, that these two sets of phenomena have no necessary connection, although it will doubtless generally be found, that interest will be high when the circulation is in process of reduction, low when it is in a course of increase.

A short explanation of the circumstance just adverted to may not here be out of place. The state of the money-market at any given time depends upon the supply of and demand for loanable accommodation—money and its equivalents; and while the supply is undergoing a diminution, the demand being unaltered, the price paid by the borrower for what he wants, in other words the rate of interest, will rise; while the supply is increasing, the demand remaining the same, the rate of interest will fall. But this effect of a variation in the amount of the circulation is only temporary; its ultimate effect is felt in the price of commodities:—but to return from this digression.

The subject matter of the banker's operations is money, and money only; in this he differs from the merchant, manufacturer, or shopkeeper, who usually

borrow, or lend, purchase, or sell, capital, that is to say, commodities, or services, to be employed in production, of which money, in most cases, forms a very inconsiderable part. Money with them is the instrument only by which their operations are effected, and not, as with the banker, the commodity in which they deal. Thus the Manchester spinner who buys cotton on credit of the Liverpool merchant, and gives his bill with the interest added, really borrows cotton. Purchases and sales between traders are in fact usually mere transactions of barter, in which money is employed as a medium of exchange. It is not so with the banker; the object of his traffic from first to last is money, and money alone. The most important department of the banker's business, as carried on in this country, is the reception of deposits. He receives the money of his customers, crediting them in his books for the amount, and employs the larger portion of it in the discount of bills, and in loans on any securities he may think suitable to his purposes, retaining only such an amount of coin and Bank-notes as experience may show to be sufficient for meeting the current demands upon him.

The chief expedients used by the banker for economizing money are checks, deposits, and set-off, of which latter the Clearing-House in London exhibits the most striking example. With respect to cheques little need be said: when drawn against

a deposit and discharged by the payment of their amount in coin or Bank-notes to the person to whom they were originally given, they perform no monetary functions; they are merely an order, under which a monetary function is performed, and do not alter in any respect the amount of coin and Bank-notes which would otherwise be required; but when the original payees hand them over to other persons in the way of loan or in the discharge of debts, they do perform monetary functions, and *pro tanto* economize currency. In large cities, London especially, they are little used in this way; but in the country, when drawn by persons of known property, they frequently pass from hand to hand for a considerable period before they are presented for payment.

We now come to the *verata questio* of deposits, in entering upon which it is requisite to explain most carefully the terms made use of, as great confusion has arisen from ambiguity of expression in the discussions upon this part of my subject. In a deposit two distinct points are to be regarded: there is, first, the coin or notes received by the banker, supposing it to arise from a money payment; secondly, the credit opened by the banker in his books. These things are perfectly distinct, and if we would avoid the most fatal errors in our reasonings, we must take care not to confound them under a common

name. I consider it as most convenient and most consonant to general usage to call the book-credit the deposit, and to consider the coin or notes which have given rise to it, as not differing in character from any similar portion of the circulation, in whosoever hands they may be.

Banks of deposit were founded in the middle ages, a period of violence and barbarism, when little security for property existed, except in a few great cities of the south of Europe, as Venice, Genoa, and Barcelona. At that time a multitude of small states existed, all issuing coin, and it was the constant habit of sovereigns, at short intervals, to reduce the standard, not with the mistaken views which influence the Birmingham school of economists, whose doctrines were then unknown, but with the more simple object of cheating their creditors and pillaging their subjects. In short they diminished the pound sterling, or the livre Tournois, in the same general spirit and with the same intention, as that which dictated the successive abstraction of teeth from the mouths of Jews and the persecution of the Templars; although, doubtless, in the two last cases religious bigotry was not without its influence. This state of things was most destructive to commerce. There was no fixed standard of value, and it was in a great degree to remedy this inconvenience that banks of deposit were established. These institutions received gold and

silver from whoever would bring them, caused them to be weighed and assayed, and opened a credit in their books in favour of the depositor for the amount in a fictitious money of account. Payments could thus be made by transfers, while the gold and silver deposited was understood to be retained in the vaults of the institutions with which they were placed. The depositor, generally speaking, could withdraw his money whenever he pleased, or make over the power of doing so to some other person by a simple order. As a matter of principle the bank could usually make no use of its treasure, though, practically speaking, good faith was not always maintained in this respect.

The state of society which occasioned the formation of banks of deposit having long since passed away, these institutions have for the most part perished with it. That of Amsterdam was wrecked in the storms of the French Revolution, and the Bank of Hamburgh is the only bank of this description which now remains. The reason of its prolonged existence may be found in the peculiar circumstances of the city which contains and upholds it. With a small population and scanty territory, Hamburg could never maintain an extensive and exclusive coinage of its own; while its commercial relations extending to every corner of the world, cause the money of all countries to flow into it. Under

these circumstances some arrangement is necessary to afford to the trading community a medium of exchange founded on an unalterable standard, and in which the money of every people may find a place—these requisites are furnished by the Bank. Circumstances similar in kind account for the protracted existence of the Bank of Amsterdam.

Here the reader will be tempted at once to ask, are deposits in the Bank of Hamburg money? I answer: the coin in its vaults is money. The deposit, if the word means any thing else than the coin, is not money. The book-credits do not possess all the qualities of money, although extensively used as its substitute; they will perform a large proportion of its functions, but they will not perform all, and great inconvenience and much false reasoning would arise from the calling by the same name and treating as the same thing a book-credit requiring to be transferred in writing, necessarily fixed to one spot, and imperfectly applicable to money transactions even there; and coin or Bank-notes, which can be used for all transactions, in all places, and at all times.

If the credits in the Bank of Hamburg are money, what is the coin on which they may be founded? Supposing this to be all Spanish dollars, do these cease to be money as soon as they enter the vaults of that institution? or does the

fact of the dollars being there deposited, double *pro tanto* the quantity of money? Surely neither of these suppositions is admissible, and I conceive that the correct way of treating the matter is to class the deposits in question with other deposits, paying due attention to the marked difference between them, viz. that the former exactly represent an equal amount of the precious metals, and increase or decrease as so much coin would increase or decrease. In both of which particulars they find no counterpart in ordinary deposits. Were the silver deposited balanced by an equal amount of notes issued, these would form the best paper-money in the world, and it may be seen at once that such notes might be used under circumstances when the existing book-credits could not be employed; as, for instance, in the payment of wages, and generally speaking, in all detail transactions, and to a certain extent in the discharge of debts to foreign countries.

It is true that what is termed Bank-money, that is, the credits in the books of the Bank, usually bears a premium; this arises from its being perfectly applicable to a large class of transactions, from its convenience, and from the want of any appropriate and stable currency at Hamburg. In England or France, under actual circumstances, an institution founded on similar principles could hardly exist. But to proceed:—

A banker's deposit, according to the custom of business in England, is a credit in his books which he usually binds himself to pay on demand. It may arise in various ways, as by the discount of a bill of exchange, or by an advance upon stock, or some other security, or by a credit opened by the banker in favour of a customer without security. In these cases, the deposit, that is, the credit in the books of the banker, may be created without any payment of money by the depositor to the banker. There are other cases in which the deposit is created by the actual payment of a certain sum in coin or Bank-notes by the depositor to the banker. In what follows, for the sake of clearness, and also because those who regard deposits as money generally take this view of them, it will be regarded as having its origin in the latter mode.

The depositor then, in making the payment to his banker, relinquishes his right of control over the coin or notes in which it is made. He is perfectly well aware that the banker will make any use of them which may seem to him expedient; that, except under peculiar circumstances, only a portion of them will be retained as a reserve, and that the remainder will be cancelled or reissued for the banker's profit. The depositor is also fully aware that should he and all other depositors demand payment at the same time, they could not be reimbursed. In

There is a like tacit agreement between the holders of notes & the banker who issues them

short, there is a tacit agreement between him and the banker, founded on their mutual interest and on the usages of business, which is almost as binding as a positive law, that a certain average balance shall always remain on the account; the profit derived from which is to constitute the banker's recompence for the trouble, expense, and risk which he incurs in carrying on his business, and from all of which he so materially relieves his customers. In this way both parties are benefitted. The balance is usually a cheap sacrifice to be set against the loss and inconvenience of every kind which the depositor would incur were he to make all his collections and payments himself, while the banker derives his profit from the employment of sums, small in their several items, but large in the aggregate, which without his intervention would usually remain quite unproductive in the till of each respective customer.

The credits in the banker's books thus created so long as they remain in the name of the depositor, perform no monetary functions whatever. This is an important consideration, as it excludes an aggregate composed of the minimum of each deposit account existing at any given time, which can hardly fall short of from sixty to seventy-five per cent. of the whole. The remainder may be made the means of effecting a payment by being transferred by the depositor

These are the means of effecting a payment by being transferred by the depositor

And the means of effecting a payment by being transferred by the depositor

to some other person through the means of a check, a letter, or the addressed acceptance of a bill of exchange; but to enable the depositor to make a payment in this way, it is necessary that the transferee should have an account with the same banker, or with some other banker who may be able to arrange the transaction with the former through the medium of a set-off. It is also obvious that of the infinite variety of cases in which the necessities of society require a payment to be made, the above conditions can be found but in a small number, and that, therefore, deposits thus considered, though they may serve to economize the use of money, and that to a considerable extent, can never assume all the attributes, or perform all the essential functions of money; for we must recollect that it is the character of money to be fitted at all times and places, and among all persons, to make all payments, and at the same time to retain a fixed value.

The extent to which deposits economize money depends in a great degree on the number of persons having accounts with bankers, and the number of establishments carrying on this branch of business. It increases in a direct ratio with the former, and in an inverse ratio with the latter. Thus, if there be ten thousand persons having deposit accounts in London with fifty bankers at one time, and the number of bankers be subse-

quently reduced to twenty-five ; or, if the number of bankers remaining unchanged, the proportion of the whole community which keeps accounts with these bankers be increased, the consequence will be that a less amount of coin and notes will be required to adjust a similar amount of transactions, because transfers and sets-off will be called more generally into play, and also because the banker will keep a reserve less in amount than the aggregate of the various reserves which it would be necessary for his customers to keep, did they make their payments themselves.

Such is the simple nature and use of bankers' deposits ; but there is another view of them, already alluded to, on which, as it is widely spread, I will venture to make a few observations, especially as it has introduced a want of clearness into several of my answers to questions put to me by the Committee of the House of Commons. By persons who take this view, it is not simply, or sometimes at all, the credit in the banker's book which is regarded in reasoning on this subject ; they look only at the origin of the credit, and always assuming that this must arise from a payment in money, they constantly talk about sovereigns deposited, bank-notes deposited, &c. &c. This seems to me to be completely erroneous. I have already shewn that deposits may be created by many other means than the actual payment to the banker of coin or Bank-notes,

and the fact is, that a very large proportion of banker's deposits are created by these other means, so that there is no necessary connection between a deposit and coin or Bank-notes, as respects *the origin* of the deposit; neither is there any such necessary connection as regards the deposit *in its subsequent stages*. No rational banker would consent to receive coin or Bank-notes which he was to be at the risk and expense of retaining in deposit, and from which, therefore, no profit could be derived by him. The banker must be at liberty to re-invest, for the purpose of profit to himself, a large proportion of his deposits; and it is perfectly notorious that this is done by every banking establishment. Every depositor is said to have a right to demand the payment of his deposit in money at any time; but this is a theoretic, or nominal right only, which differs widely from the real practical truth. The deposit, I must again repeat, is nothing more than a credit in the banker's books; in other words, it is an engagement on the part of the banker to discharge a debt, and this engagement is necessarily subject to the contingencies which arise out of the established usages and course of business. Among these usages the most important is the non-retention by the banker of coin or notes equal to the amount of his deposits; and therefore the most important contingency necessarily attending the deposit is the inability on the part

of the banker to repay his depositors at once in gold or notes, in case a demand is made upon him to an extent which exceeds a small proportion of the aggregate amount of the deposits.

The hypothesis, be it observed, does not simply regard the adjustment of transactions by the transfer of a credit, but the extinguishment of the latter through the medium of a money payment. This is a point of great importance, and deserves especial notice.

We must now enquire whence the money which is thus to discharge and extinguish the deposit is to come? Assuredly, it must come from the general mass of currency, being obtained either in return for securities sold, or in payment of debts called in; or being drawn from that portion of the circulating medium which constitutes banking reserves. These reserves are, as I have already explained, sufficient for their purpose, but they are altogether unequal to the repayment of more than a fraction of the deposits existing at any given period. We thus see that the opinion in question is founded on an entirely false assumption of facts, and that it must therefore lead to erroneous conclusions.

Some persons draw distinctions between deposits in the hands of the Bank of England, those in the hands of joint-stock and private banks of issue, and those in the hands of non-issuing banks; affirming in some cases that deposits with the

Bank of England only are money, but denying that quality to all other deposits; and again, in other cases, affirming that the qualities of money attach only to deposits which are owing by banks which have issued the notes in which the deposits have been made. It is difficult to understand such refined and purely imaginary distinctions, and I cannot but feel some apprehension that I may not correctly represent the doctrines which are founded upon them. I have endeavoured, however, to give a faithful statement of the varied shades of opinion which I have met with principally in the evidence of the witnesses examined before your Committee.

Now the reader will recollect that a deposit or book-credit can be directly used to adjust a transaction or to discharge a debt only in two ways—1st, by being transferred in the books of a banker from one of his customers to another; 2dly, by being set off in the books of banker A against a similar charge in the books of banker B. It is sufficiently clear that these transactions may take place in the case of all bankers receiving deposits, of whatever character in other respects, and whether they do or do not issue notes.

It will also be remembered that deposits are often discharged by an equivalent payment in coin or notes, a process erroneously considered by many persons as a proof that deposits perform

monetary functions, although it is undeniably clear that such payments are and must be made in money. Here again there is no difference between the action of deposits drawn from issuing or non-issuing banks, excepting this, that non-issuing banks not having the means of creating money, can only pay their debts from the existing stock of coin and bank-notes, which they must draw from their own reserve, or from the public, through the medium of a recall of debts or a sale of securities; while issuing banks, who may and ought to have recourse to similar means, are tempted to issue notes, not required in the existing state of the general circulation, instead of relying on their legitimate resources. This affords a conclusive argument against the union in the same hands, of the business of banking and that of issue, but affords no just ground for the conclusion that deposits in banks of issue necessarily constitute money any more than other deposits.

One meets occasionally with another distinction, upon which it is worth while to say a few words. It is said that deposits of a fugitive character, such as a part of those of the London bankers with the Bank of England, are money; they have been called by Mr. Horsley Palmer bank-notes waiting issue. I cannot subscribe to the correctness of this opinion. Such deposits seem to me to resemble all other deposits, ex-

cepting that they require a larger reserve. In the permanence of deposits, there is of course a great variety. Some may be justly expected to continue undisturbed for many years, while others can only be reckoned upon for a few weeks, days, or even hours. The experience and sagacity of the banker enable him to regulate the proportion between his liabilities and the reserve which he provides against them, so as to render him secure of being able under ordinary circumstances to meet all the demands of his customers, even in the extreme case of his being compelled to keep a special reserve to meet some particular deposit equal to its whole amount. Still in this extreme case I think it an improper use of terms to call the deposit, that is, the credit in his books, money. The stock of coin and Bank-notes which he is obliged to keep for the purpose of meeting the claims of his depositors alone deserves the appellation of money, or can receive that appellation without introducing confusion into all our reasoning on this subject, otherwise we should have to discuss for how long a time a credit must remain open in a banker's books, in order to be entitled to rank as a deposit.

I have mentioned, some pages back, that an aggregate of deposits formed of a minimum of the deposit accounts with all bankers are wholly inapplicable to the adjustment of transactions,

or to the payments of debts, and cannot, therefore, upon any plausible ground be assimilated to money. To this I may now add, that a large proportion of deposits, although considered as payable on demand, are in effect specially appropriated; in which case the period when they will be demanded can be calculated on with more or less exactness. Such was the case with the large extra deposits in the Bank of England belonging to the East India Company, with those arising from the West India Loan, with a certain proportion of the Government deposits with that institution at all times, and with many belonging to private persons in all banks.

In most parts of the United Kingdom out of the metropolis, bankers allow interest on deposits, binding themselves to repay them, not on demand, but at the end of a certain specified period after notice given. Usually, however, the banker does not avail himself of this power of delaying payment, but discharges his debt at once. It would be equally tiresome and unprofitable to enter upon an examination of the bearing of this mode of transacting business upon the subject before us.

Very little need be said upon the third banking expedient,—the system of sets-off, of which the operations of the London Clearing House afford the best example.

By some persons all the transactions of the

Clearing-House are considered as necessarily connected with deposit banking, but there is in principle no such necessary connection between them. Did not such a thing as a deposit exist in the hands of any banker in London, the Clearing-House, and that wonderful system of sets-off which constitutes its machinery, would still be used. In this case the banker would employ a capital of his own in working his business — he would make the collections and payments for merchants as at present, charging them a commission, instead of being remunerated by the profit he could make upon the deposits in his hands, while these several transactions would be balanced against each other at some central point, until only a very small sum in money would adjust what remained. To customers in whose responsibility he could place confidence, the banker would make the advances necessary to liquidate the transactions of the day. Under present circumstances, however, the Clearing-House, speaking practically, is so mixed up with deposit banking, as to render it unnecessary to say more about it, excepting to remark that if it be right to call deposits money, because they diminish the necessity for resorting to the use of coin and notes under certain circumstances, it is equally proper to give the same appellation to that mode of economizing it, which is probably far more efficacious, and which has been just pointed out.

It seems impossible to ascertain the extent to which money is displaced, or rendered unnecessary, by the use of deposits, as a means of adjusting transactions in this country. Assuming, as is probable, that the deposits with banks and bankers throughout the United Kingdom do not fall short of 100 millions, and that the minimum, which, as explained before, can upon no pretence be assimilated to money, is 70 millions, there will remain 30 millions as the sum which passes frequently from one name into another, and which alone can occasion any economy in the use of money.

There are many other things besides those already examined, which occasionally afford the means of payment, and thus perform certain monetary functions—among them may be enumerated Exchequer Bills, India Bonds, Dock Warrants. In short, all transferable debts and securities are or may be thus used; but as the influence of these minor economizing expedients is inconsiderable, it would be useless to say more about them.

It is now desirable to make some remarks on the influence of the banking expedients, in particular, especially as respects deposits, and the machinery of the Clearing-House, or analogous contrivances, on prices and interest.

It has been already shewn in the first part of this pamphlet that the value of the precious me-

tals in each country, and the proportions in which they are distributed, result from well-known laws, and that the introduction of paper-money instead of coin, in a given country, renders a certain portion of the coin unnecessary, occasions its exportation and distribution among other countries, and a slight depreciation in its general value as compared with commodities; and it is most important to observe that this effect is not confined merely to the country where the paper-money is issued, but is universal and almost equal.

From this it necessarily follows that even an issue of Bank-notes, if strictly convertible, although they represent and replace an equal quantity of coin, does not affect general prices except transiently and to a slight degree; and this is equally true of the banking expedients, the employment of which occasions an additional economy, not merely of coin, but of Bank-notes, although to a much less than an equal corresponding amount. The money value of commodities in each particular country is fixed by the cost of procuring gold and silver, and the final balance of payment between different countries is adjusted by an exportation of the precious metals. This principle is universally true, and does not in any degree depend upon the relative extent in which the use of the precious metals may be economised

by a resort to banking substitutes. The degree of economy may vary greatly in different countries at the same time, and in the same country at different times. Still the general law universally prevails, and being founded on the very nature of things, although it may be disturbed, it cannot be abrogated even by legislative interference.

It may here be observed that there is a marked difference between the effect produced by Bank-notes on the price of commodities, and that produced not merely by those which I have termed the banking expedients, but by the economising expedients in general. Bank-notes being by law or custom a general instrument of exchange, or in other words, being really money, the range of prices dependent upon their amount can only be checked by their convertibility at the will of the holder, under the action of the foreign exchanges; while any variation in prices connected with the employment of the economizing expedients is exposed to control, not only from these causes, but also from the real amount of circulation or money existing at the time, taking coin and Bank-notes together. On the whole, then, it would seem that the economizing expedients, however great the extent to which they may increase the efficiency of a given quantity of money, can have but a trifling influence on general prices.

With respect to the effect of the banking ex-

pedients on interest, it must be recollected that interest is ordinarily paid for the loan, not of money, but of capital, and that it depends upon the gain which may be made, or upon the loss which may be avoided, by the obtainment of capital. Interest has no permanent and necessary, but merely a temporary and accidental, connection with the amount of circulating medium, in which, generally speaking, loans are made. The currency may even be depreciated by excessive issues, as was the case in England during the war, and the rate of interest may at the same time be high ; or the currency may be appreciated by restricted issues, as about 1822, and interest nevertheless be low. Still during a period of contraction it will almost always happen that interest will rise, and that it will fall during the progress of expansion. The circumstance that paper-money in this country emanates from bodies which perform the ordinary business of banking, and is usually advanced in loans upon securities bearing interest, contributes materially to this result.

Interest is the consideration paid for the loan of capital ; the contract, it is true, is in most cases made nominally in money, because money, as being the general sign and representative of value, is the medium through which the command over the capital is transferred from the lender to the borrower. The interposition of credit may facilitate the distribution and even

alter the destination of capital, but it can have no direct influence in augmenting the actual amount of capital, and therefore it cannot directly affect the consideration paid, in the form of interest, for the use of capital. The banking expedients are mainly built upon the basis of credit; they are various forms assumed by credit when it comes into practical operation, and what is true of the interposition of credit generally is specially true of these particular forms of credit. They are important agents in the distribution of capital, but it is not easy to perceive in what way they can produce any direct or permanent effect upon the consideration which is to be paid for the use of capital.

Still it must be allowed, that as respects the money-market, the banker's domain, the rate of interest depends upon the proportion between the means of those who wish to lend, and the wants of those who wish to borrow money or its equivalents. From this it follows that the banking expedients may produce a great temporary effect, especially in times of high confidence, by increasing the number of lenders and the extent to which they may have the power of lending, and they produce this effect in various ways; at such periods bankers are disposed to trade on a smaller proportional reserve than in more troubled times; they will open credits more readily, and both the credits thus created and those arising from coin or notes paid

in have a tendency to multiply themselves in the way pointed out by Mr. Pennington. Still this superstructure is founded, and ultimately limited, by the real capital of the country, by a comparison between the wants of those who are desirous of borrowing, and the means of supplying these wants existing in the hands of those willing and able to lend.

On the whole it appears that the extensive use of the various economizing expedients in this country, where they are employed to so enormous an extent, may produce occasionally very striking phenomena. They and the use made of them are commonly pointed out by the phrases—the state of credit, low credit, high credit, &c., and we often see, without any alteration in the real money of the country, great changes take place in the state of the money-market and of the prices of particular commodities, and of even classes of commodities. Thus the phrenzy of 1825, setting aside the moral epidemic that prevailed, was probably even more connected with the state of credit than with any real increase in the circulation; and we have often observed prices and interest strongly affected by precautionary measures on the part of the Bank, when these did not really diminish the quantity of money; indeed, this is the usual, and often the most useful, effect of such measures.

And here it may be proper to remark how great is the utility of a well-regulated currency

in limiting the use of credit in such a way as renders it on the whole most advantageous to the community. An increase of Bank-notes at an improper time and to an improper extent, by which I mean at a time and to an extent which would not have occurred with a metallic currency, affords the basis for an enlarged amount of bills of exchange and other instruments of credit, which upholds prices unnaturally until the tide turns, and then the reaction is violent and unnatural in a corresponding degree.

With a well-managed paper circulation the economizing expedients would produce no more effect than with a metallic circulation. With both there would be a certain elasticity in the currency, chiefly owing to the action of credit in its various forms.

There is one more observation which I should wish to make before I terminate this portion of my labours. Its importance will, I think, entitle it to your most serious consideration.

All the economizing expedients would exist was there no such thing as a Bank-note in the world. In such a state of things individuals would set off the articles they supplied to each other as they do now, and once a year or oftener would pay the balance in money. Debts would be liquidated through the medium of bills of exchange. Bankers would receive deposits reimbursable on demand; would keep only a small reserve in money to meet them, and in adjust-

ing their transactions would resort to transfers in their own books, and to the Clearing-House, or analogous contrivances, whenever by such means they could avoid the costly necessity of employing coin. In such a state of things, moreover, bankers and their customers would not always act wisely. The trade in money, like other trades, would be occasionally out of joint, although not probably so often or to so great an extent as now. These evils, like corresponding evils in the ordinary affairs of commerce, might be more or less remediable, might or might not require legislative interference. But should we then find persons who would call all the economizing expedients money; who would confound them with coin, under one common name, and declare that no good could arise from rectifying the standard of the sovereign or the guinea unless all these things were also placed under legislative regulation? I can hardly imagine that in this case such a proposition would find many supporters. Yet surely there is no real difference between the opinions involved in it and those which are now urged against all proposals for the removal of the evils incident to our existing system of paper issues, because those who propound these curative measures leave out of their view the economizing expedients.

PART III.

CONCLUSION.

It is now time to conclude my task by a short summary of the principles laid down in what has preceded, to which a few general reflections on the matters discussed, and some remarks bearing upon the legislative enquiry now in progress, will be added.

It is a trite observation, but not therefore the less true, that a large proportion of all disputes are merely verbal, and it is very possible that some of my readers may be unwilling to agree to my proposed division of all things capable of discharging monetary functions into money, and the means of economizing it, who might nevertheless agree with me as to the practical results which I consider as connected with that doctrine. Such persons might say—We think it logically correct to call all things, possessing in a great degree the same qualities and powers by the same name; and as deposits and bills of exchange actually discharge a vast amount of debt with as

much facility as gold or Bank-notes, we consider them equally entitled to the appellation of money or circulation; at the same time we allow that they are not to the same extent, if at all, within the controlling power of the legislator, and that an attempt to regulate them would do more harm than good; and we therefore acquiesce in your proposal to leave them to be managed according to the suggestions of individual self-interest, and to concentrate the attention of the Government on Bank-notes, with a view of placing their issue upon the plan most conducive to the public interest.

It is plain that my difference with such persons would not be material, so far as respects the duty of the legislator, although I should still maintain that, in a scientific point of view, I am right and they wrong, for reasons which have been given already; and moreover that, speaking practically, it is eminently convenient to apply different names to things which vary in so essential a point as that of being susceptible of legal control or the contrary. Passing over all other discrepancies between money and its substitutes, I should add that the line of division which I have chosen is also that of the provinces of the Sovereign and of the trader in money; it being the business of the former upon the rule of public utility to issue and regulate the coin and its immediate substitute,

Bank-notes, while full power is left to the latter to deal with the gold and paper thus put into circulation in any way he may deem most advantageous, or to dispense with them altogether, when circumstances allow. But to proceed.

Money is that commodity which forms the universal representative, standard, and measure of value, and medium of exchange; consequently all persons are willing to receive it at all times and places, and to any amount great and small, in the discharge of debts, and in payment for any articles they may be willing to sell.

Metallic money answers to the above definition with the greatest accuracy, as its value is intrinsic and unalterable by law or mismanagement on the part of issuers, except in a very inconsiderable degree, and as being current everywhere. No legislative interference in what relates to coin is therefore necessary, excepting in so far as may be requisite to make it convenient in point of size, &c., to determine the choice between gold and silver as a standard, and to guard its purity.

Bank-notes are to be considered money, because they perform locally, though not universally, all the functions of an equal amount of coin, being either by law or custom a means of discharging all pecuniary liabilities. They are either national or provincial according to the nature of the bodies from which they emanate,

and the sphere of their circulation ; they possess little or no intrinsic value ; their value in exchange arises from the limitation of their amount, that is, from their being issued only in limited quantities, or from their being convertible into gold and silver at the will of the holder.

On the other hand, the value of coin, although it is dependent at any given moment on the demand and supply, is ultimately regulated by the costs of producing gold and silver. This circumstance and the respective demand, and means of paying for, the precious metals, on the part of various countries, causes their distribution among nations in certain proportions ; these proportions however never remain fixed for any considerable period, but vary so as, on the whole, to leave the interchange of other commodities in the same state as if it were merely barter.

From the circumstance that Bank-notes possess no intrinsic value, and that a profit is derivable from their issue, a temptation necessarily arises to issue them to the greatest possible amount ; hence the necessity for special regulations applicable to them, and to the institutions which supply them,—the most essential condition being that they should be always convertible.

Injurious consequences may occur when a paper-circulation, without being really unconvertible, is subject to discredit, or when it deviates in point of quantity from the coin which it represents. To secure these essential con-

ditions,—viz. that Bank-notes should be, 1st, convertible; 2dly, as little as possible liable to discredit; 3dly, at all times of the same amount as the coin, which would necessarily circulate in their room were they withdrawn,—should be the great aim of all legislation with respect to the currency.

Such legislation will be found most easy and effectual when the Government confines the issue of Bank-notes to a single institution; and the difficulty of placing the issue of paper-money under proper regulation will increase with the augmentation in the number of issuers.

In addition to the multiplicity of issuers, a most important source of evil in our present system of paper-issues arises from the union in the same persons of the business of creating money with that of banking in general, the principles upon which each ought to be regulated being totally different, and the motives by which the parties conducting those respective employments ought to be influenced, being positively in opposition to each other. Such are the most important reflections, which arise from the small sketch I have laid before you, of the nature and functions of money.

But I have endeavoured further to explain the principles upon which, in order to avoid the expense of employing money, mankind make use of various contrivances, the most important of which are sets-off, and transfers of credit of

various kinds, and that some of these, from their falling peculiarly within the operations of the banker, may be aptly termed the banking expedient, for economizing money.

The pecuniary transactions of society are at every respective period adjusted by means of some certain amount of money, aided by the economizing expedients. The range of general prices, other things being equal, depends upon the quantity of money. The economizing expedients are at all times introduced to the utmost practicable extent, it being the interest of money-dealers, and in fact of every body, to substitute them for money whenever it is possible so to do. A change other than temporary and partial in the relative proportion in which money and its substitutes are made use of, implying as it does a great alteration in commercial habits and usages, is always slow in its progress. As it consists chiefly in a more extended use of credit, it can scarcely at any rate be co-existent with commercial pressure when credit is low. Hence it follows that the apprehension expressed by some persons that the effects of a proper contraction of Bank-notes might be defeated by a more extensive use of bills of exchange, &c. is unfounded.

These economizing expedients have the effect of rendering a much smaller amount of money sufficient for effecting the interchange of commodities and the adjustments of pecuniary contracts

than would be required were such expedients not introduced. But neither any one of them, nor the whole taken together, enable us to dispense entirely with the use of coin and Bank-notes; on the contrary, they all imply the existence of money; nor do they answer to the definition I have given of money, for they are not an universal representative, standard, measure, and medium of value, and therefore in universal demand like coin, nor do they dispense with a quantity of coin exactly equal to their own amount, like Bank-notes.

The effect of these economizing expedients on general prices is trifling and transient, although, when concentrated on a small number of articles, it may be more considerable; it is usually referred to when in common parlance we talk of credit, as the state of credit, high credit, or low credit. Prices are ultimately regulated by the cost of production as valued in the precious metals.

It would be altogether unwise on the part of the Legislature to attempt to regulate the economizing expedients by any direct interference with the free agency of those who employ them. All mankind are not endued with wisdom, and some part of the community will occasionally use them indiscreetly; but the same thing may be said of commerce in all its branches; miscalculations are common among traders, and ruin is frequently the result. Still on the whole it is

found best to leave them to act under the dictates of their own views as to the course most conducive to success. Universal experience shews that a contrary line of legislation is inevitably injurious. The doctrine of free trade applies no less forcibly to the business of the banker taken in its widest sense as a general dealer in money than to all other traders.

The above line of argument has been used as an inducement to the Legislature to abstain from all interference with either the whole or a part of the issuers of Bank-notes, but the cases are not parallel. The line of distinction will be clear to all who have read what has preceded. In some countries unregulated issues of paper-money have been allowed for a short period, but the consequences have been such as to call speedily for the enactments of restrictive laws. The only questions now in debate are, who are the persons, and what the processes which ought to be brought under the operation of these restrictive laws?

But, although we cannot regulate the economizing expedients by direct legislation, we have means indirectly of keeping them within the limits of healthful action by maintaining a proper control over the circulation, for experience evinces that the amount of money has a most important influence upon them, being as it were the foundation on which they are built. By duly regulating the amount of money, we take the really

legitimate and most effectual means to enforce a corresponding regulation of the economizing expedients.

If the above views be correct, I fear it must be allowed that a large portion of the valuable time of the Committee of the House of Commons during the last session was altogether wasted, being devoted to inquiries which at the best could lead to no profitable result. The subject to the investigation of which the attention of your Committee ought to be strictly confined, is the means by which a circulation constituted of paper notes, issued as direct substitutes in the place of metallic coin, can be preserved at all times of the same value as such metallic currency; in other words, by what regulation of its amount there can be permanently secured to paper notes an artificial value equivalent at all times to the intrinsic value of the coin they represent. If this be accomplished, it is clear that the economizing expedients will be undisturbed; that they will exist under a mixed circulation of coin and notes, provided the notes be subjected to the requisite regulation of amount, to the same extent and in the same form as they would exist under a purely metallic circulation. Whatever, therefore, may be the interest or importance which attaches to an inquiry into the nature and effect of the various economizing expedients, it is perfectly distinct from the inquiry

which alone it was the intention of the House of Commons to institute, into the effect produced upon the value of the circulation by the issue of notes in the place of coin, and the regulations to which the power of issue ought to be subjected for the purpose of securing with unfailing certainty at all times the convertibility of the notes so issued into the coin of which they are the substitute. I ardently hope, for the sake of the country at large, that an altered course will be pursued when Parliament reassembles, and that the endeavours of yourself and colleagues will be confined to an attempt to place the issue of Bank-notes upon such a footing as the general good requires. I individually feel the most perfect conviction that this end can never be attained unless they are made to oscillate precisely in the same way as a metallic currency would oscillate did they not exist. All I have heard or read combine with much reflection to produce this opinion in my own mind; and being persuaded of its truth, I ardently desire that it should gradually make its way with the public.

However, even should the Committee agree with me upon this great principle, its task will be far from easy. A single issuer might be readily dealt with, but how are we to deal with five hundred? How are the honest prejudices of one part of the nation and the feelings of self-interest, well or ill founded, of another part to be over-

come? These indeed are difficult questions, the solution of which I must leave to you, satisfied if I have in any respect contributed to the removal of erroneous views respecting the subject matter of your inquiry, and by clearly defining its true boundaries have in any degree facilitated the efficient progress of the investigation.

In what has preceded, your perfect acquaintance with the matters discussed will lead you to remark, that I have touched but lightly on several subjects of considerable importance. The complete elucidation of these subjects would have caused this letter to swell into a bulk which the patience of but few readers will tolerate in a pamphlet. There are some points indeed, on which I have much to say, but which I have passed over almost without notice, from the apprehension, that even an imperfect sketch would carry me too far. To one of these, I will now however allude, in order to secure myself against all danger of misconception. It appears to be the present opinion of a considerable portion of the public, that mercantile excitement, an exaggerated spirit of speculation, and their painful consequences, always take their origin in mismanagement of the currency. This doctrine is very consolatory to the self-love of those, who, having bought at high, are compelled to sell at low prices, or whose commercial operations have been otherwise unsuccessful. But such is not my opinion. I am

firmly persuaded, that these evils would continue to appear from time to time, was the currency placed under the most perfect regulation that human ingenuity could devise ; and that our existing system of paper issues, which is doubtless very far from perfect, only intensifies mischiefs of this kind, the origin of which is to be sought for, either in uncontrollable accidents, or in the ignorance and blind presumption of some—in the over-sanguine hopes or irrational-fears of others—in a word, in the general imperfection of our human intelligence.

I have the honour to be,

My dear Sir,

Your most obedient servant,

GEORGE WARDE NORMAN.

Bromley, 20th January, 1841.

NOTES.

A.

ON THE REPAYMENT OF DEPOSITS.

It has been my object in the preceding Letter, while unfolding my own views, to avoid as far as possible all controversy with those who maintain opposite opinions. I have adopted this course in order to avoid the evils of prolixity and confusion; but there are one or two points so important in public estimation, which the above plan excludes from all but an incidental notice in the body of my pamphlet, that I have thought it desirable to make a few observations upon them in the shape of appended Notes.

The first of these is the nature and effect of the cancellation of credits arising from deposits in the books of an issuing bank. I have shewn that such credits, while they continue to exist, can be employed to economize money only in two ways:—1. by being transferred from *A* to *B* in the books of any given banker; 2. by means of a set-off between any two bankers.

I have also shewn that deposits are available so far, whether in the hands of issuing or of non-issuing banks. It seems then that all agree that this use of deposits does not entitle them to be considered as currency, circulation, or money. Now let us suppose that a deposit is withdrawn from a non-issuing bank by means, not of a transfer or set-off, but through a *bond fide* payment in coin or Bank-notes ; it is certain that the money adjusts the transaction, and not the credit in the banker's book ; that the banker out of the existing money of the country must find the means of discharging his debt, and that he will do this either by taking from his reserve, or by parting with some available security should his reserve be insufficient, by recalling a loan, or by borrowing. So far all seem agreed, and it follows that in a country where the currency is metallic, or where the paper emanates from an institution which does not carry on banking business, no deposits are to be considered as circulation or money.

Now, then, let us advance a step farther, and imagine the case of an issuing bank, the business of which is divided, and which manages its banking department as an ordinary non-issuing banker would do, and its circulation department on the principles which I should consider correct, by making its notes vary as a metallic currency would vary. Surely this state

of things does not really differ from the last; there is a variation in name, but nothing more.

But suppose that the bank in question, when called upon to repay its depositors, has no sufficient reserve available for that purpose, is unwilling or unable to realize securities, and therefore resorts to an issue of notes uncalled for by the state of the circulation, as the means of fulfilling its banking obligations;—should we on that account be entitled to call all deposits with issuing banks money? Surely not, unless we mean to confound under the same name things very dissimilar in their nature. If, however, any one of my readers should choose to call deposits thus mismanaged money or currency, I should not quarrel with him, as the dispute between us would be merely verbal, supposing him to agree with me in the previous steps of my analysis. At any rate it seems perfectly clear that those who do not class the deposits of all bankers as money, cannot consistently extend the term to those of issuing banks properly regulated.

There exists a class of popular objections to my views of this subject, which are usually embodied in such questions as these: If I have a Bank-note in my pocket for £1000, is not that money? If I lock it up in my strong box, is it not money? If I pay it into my banker's, does it

cease to be money ? Is not, therefore, my deposit with the banker in question money ?

To these questions I should answer that the Bank-note continues to be money in whosoever hands it may be found, but that when deposited with a banker it ceases to belong to his customer, who takes in exchange for it a credit in the banker's book, and that this is a plain matter of fact, the denial of which involves one of two assumptions, both of which appear to me completely erroneous, viz. either that a Bank-note which passes into the hands of a banker ceases to be money, or that the making a deposit doubles *pro tanto* the amount of money in existence. Before it was made, there was only the cash which gives rise to it ; afterwards there is the cash and an equal amount formed by the liability of the banker to the depositor.

But here I should be asked, Cannot the depositor do with his deposit exactly what he could have done with his note, supposing that he had retained that in his own possession ? I reply probably so, that is to say, if the amount of the deposit be not already appropriated and if the banker is solvent, but not otherwise, and that one of the interrogator's mistakes on the subject consists in his regarding that as certain, which is, in fact, only contingent—contingent upon the maintenance of the established habits of business, under which experience shows that a reserve in money

of twenty to thirty per cent. is usually sufficient to meet the demands arising from a deposit business in this country.

In short the reserves of bankers, consisting of notes and coin, are as much money as the sovereigns or shillings in the pockets of the public; but the credits in the banker's books are not money, although they may be used, under particular circumstances, when money would otherwise be employed.

When a deposit is drawn for, the payment is made in money, that money being already in existence and reckoned in the circulation; if the banker's reserve be insufficient, the depositor cannot be paid.

Deposits would exist in the same manner as at present was the currency purely metallic; no one maintains that in that case they could with propriety be termed money; the only difference in point of principle between such a state of things and the present is, that we have now issuing banks, who occasionally create notes for the express purpose of paying their depositors.

B.

ON THE PROPOSAL THAT THE BANK OF ENGLAND SHOULD KEEP A VERY LARGE BULLION RESERVE, AND SHOULD ABSTAIN FROM CONTRACTING ITS ISSUES AT THE COMMENCEMENT OF A DRAIN.

Some gentlemen of high authority have given it as their opinion, that under certain circumstances the Bank of England, in the event of a foreign drain, ought not to contract its issues to an extent equal to the loss of treasure, but that it should remain passive for some time, and allow the notes returned upon it for gold to go forth again in the shape of loans or discounts, or in the repayment of depositors. In order to prevent the danger of a suspension of payments under such circumstances, they propose that a very high amount of treasure should be amassed at a period of favourable exchanges, say fifteen millions, instead of ten or eleven, as heretofore.

The above system of management appears to me to be opposed to sound principle and full of peril as respects the maintenance of specie payments. As far as respects the first objection, I need merely remark that in my view a metallic circulation is to be considered the type and model of all others, and that if these deviate from it in

any respects other than cheapness and convenience, they are so far erroneously managed. Now it is clear that a foreign drain, however arising, would always diminish, *pro tanto*, a metallic currency.

To prove my second point I will take the case of a sudden demand upon England for a foreign payment to the extent of five millions sterling, the currency having been previously in a wholesome state, and the Bank having a metallic reserve of fifteen millions. Now, then, the Bank is to part with five millions of sovereigns and to re-issue an equal amount of notes; and what will be the result,—simply a fall in the value of money, coin and notes together, in the general markets of the world. The sovereigns exported will be added to the currencies of other countries, while that of England will not be diminished. A slight increase, indeed, will ultimately take place in it equal to the per-centage added to the foreign circulation before a perfect equilibrium can be attained, but this would be so small that it may be neglected in the present sketch. At any rate there would be no reason why the lost treasure should return; in fact, it never could necessarily be brought back except by a proportional contraction of the paper-money in England.

We should thus be left in the same state as before the foreign demand occurred, except that the Bank had ten millions of treasure instead of

fifteen; and it is clear, without repeating the statement given in the last paragraph, that new demands for foreign payments would soon arise, and that if similarly treated they would lead to the same result, and ultimately render a suspension of specie payments inevitable.

It matters nothing to the question whence the drain proceeds, whether from what is considered the natural march of commerce, over-issue, a bad harvest, foreign loans, or war; the effect on the English currency in all these cases would be the same.

But some of those gentlemen whose opinions I now impugn allow that when the Bank reserve had been diminished to ten millions, the drain continuing, it would be necessary to contract the paper in equal proportion to the loss of gold, or faster. I agree with them in this, but can see nothing but evil in the opposite system of management, which they consider applicable to the previous state of things.

It will probably be urged by my opponents that they do not mean to let the first five millions of gold quit the coffers of the Bank for ever—that they intend to bring them back by some means or other in order to restore the institution to its normal state. To which I reply that they can be recovered only by a proportional contraction, and that the difference between us consists in this; they advocate a contraction connected with the

state of the money-market, uncertain in point of time and intensity, and dependent on the fancy or caprice of those who have to administer the currency; while I think that the contraction should be connected with a self-acting machinery, that it should be regulated simply by the state of the English currency, compared with that of the currencies of other countries as tested by the exchanges; in other words, that it should exactly conform to what would occur had we only metallic money.

On the whole, then, it seems to me that a metallic reserve of fifteen millions, while it would considerably increase the expense, and thus diminish one of the advantages of a paper currency, would afford no security for the maintenance of specie payments if unaccompanied by a system of management conducted on currency in opposition to banking principles, and that if the former be accurately followed out, a much less reserve will afford ample security for the convertibility of the paper-money. A system of mint-notes would, in my view, be almost as cheap, and in other respects far superior to the scheme here criticised.

In this note I advisedly pass over the question, Should the treasure in the Bank of England increase and decrease in equal proportion with its own notes or in equal proportion with the whole paper-money of the country?

C.

ON THE QUESTION AS TO WHAT SHOULD BE CON-
SIDERED CIRCULATION OR MONEY.

The above question has excited more attention than its intrinsic importance deserves, for after all, in most cases, the disputes about it are chiefly verbal.

The most easy and natural way of solving it would seem to be to look in the first instance at the state of a country having a purely metallic circulation. In such a country there would of course be merchants who would draw and accept bills of exchange, and bankers who would receive deposits, still nobody, that I am aware of, maintains that there would be any other money than the coin. Mr. Condy Raguet, who differs from me in some of his views as to this point, in his "Treatise on Currency and Banking," says expressly, p. 184, that "In countries at the present day, which carry on their affairs without paper money, gold and silver are the only currency." Let it be observed, that under such circumstances, all the economizing expedients explained in the second part of this pamphlet, all the vast machinery of transfers of credit, and sets-off, might exist, and be fully employed.

Now then, let us imagine a portion of the coin

withdrawn, and replaced by an equal amount of Bank-notes. Would not the paper thus issued perform all the functions previously performed by the gold and silver, and merit the same appellation, and would there be any reason for applying the term money to any thing else which although previously existing had not been so denominated ?

The only difference between the state of things described in the last paragraph and that which actually exists in England or America, is that the paper money of these countries is not at all times of precisely the same amount as the coin which might replace it would be ; but that owing to mismanagement on the part of issuers, owing to their circulation being regulated on banking and not on currency principles, their notes are sometimes a little higher, sometimes a little lower in amount, than would be the case if they varied precisely like a metallic circulation. Now I cannot conceive that this difference can at once transmute all or any of the economizing expedients into actual money. I do not see why we should in this instance introduce into our phraseology the great secret of the alchymists, and convert into gold things which were not previously considered to possess the essential qualities of money.

What has preceded enables me to answer the question proposed as the subject of this note. The money of this country consists of all the gold, silver, and Bank-notes either in actual cir-

circulation or in the reserves of the Banks ; it thus includes all the published returns of the Bank of England, joint-stock and private banks, with the exception of most of the Bank post-bills, which are merely bills of exchange of indubitable solidity, at short dates ; and it includes besides a certain amount of Bank of England notes forming the banking reserve of that establishment. These do not now appear in the official returns of the circulation, owing to the form in which the returns are made, but would at once be seen, was a separation of departments to take place, or the paper issues to fall into the hands of the Government.

Some persons maintain that a portion of the notes of each particular issuing body, not comprehended in the present returns because remaining in its own hands, ought to be included in an enumeration of the current money of the country, as well as the reserve of the banking department of the Bank of England ; perhaps to a small extent this opinion is well-founded. Yet I am inclined to think that at present the reserves of bankers are almost at a maximum, and that, in case the whole paper circulation was in the hands of the Government, we should find that an amount equal to that which now emanates from the provincial banks in the aggregate would suffice to supply their wants. On the whole, this question is not of such importance as to merit the extended analysis which might be requisite for its complete solution.

In commenting on the returns relative to the condition of the Banks of the United States, which have been laid before Congress, Mr. Raquet deducts from the total circulation, the item, "notes of other Banks on hand," and the specie in the possession of the several Banks, because the former must have formed the basis of deposits, or have been exchanged for their own notes; the latter, because it will be represented by notes issued, or by book credits, which Mr. R., under certain circumstances, considers to be circulation. Now, from what has preceded, it will be seen that I differ from him. It seems to me that the gold and silver existing in the coffers of Bankers does not therefore cease to be money; that this gold and silver forms a necessary part of the monetary machinery of the country, and is as well entitled to the distinctive appellation of money, as the coin which is to be found in the tills of tradesmen, or the pockets of the public at large, and this whether the reserves are held against the notes or deposits. In the latter case, I allow that we should be wrong, if we were to call both the deposits and the reserves held against them currency, and Mr. R. escapes from the mistake by rejecting the reserves from his enumeration; I think it more consistent with correct phraseology to reject the book credits.

The above writer, however, clearly perceives, that all deposits do not bear the character of

money, but only those immediately demandable; now, both in law and fact, these a prudent Banker would be prepared to meet by a reserve equal nearly to their whole amount, so that, in this case, there would hardly exist any substantial difference between us. While he would consider the book credits and not the reserve of coin and notes held against them, as money, I should consider the reserve of coin and notes, and not the book credits, as money; and in the supposed case, where the reserve of coin is equal to the amount of deposits, the result, so far as regards an estimate of the amount of the circulation or of the current money, notwithstanding our different mode of arriving at it, will be the same.

I have in a former passage alluded to the scheme of issuing Bank-notes only to the same amount as the gold or silver held against them; the scheme which would be realized, supposing the Bank of Hamburgh were to abstain from opening book credits for the coin and bullion placed in its possession, and were to put forth an equal amount of notes instead.

I may be asked if in this case I should call the notes, as well as the gold and silver, money; and I answer decidedly yes, and should explain my opinion by stating, that the laws of the institution were such as to require a larger amount of money to perform a given quantity of monetary functions than would be wanted under a different

system. In the same way as under the existing system of paper issues in England and America, the amount of money required consists of the bank-notes plus the metallic reserve, the maintenance of the reserve being essential to secure convertibility, which is deemed necessary as a matter of prudence and regulation, although nearly the same amount of bank-notes would maintain their value, as compared with gold, if absolutely inconvertible.

I allow that this classification would be at fault, if I had considered the power of acting directly on prices at all times to be an essential quality of money ; but this power does not enter into my definition of money, and an enquiry into what portion of the whole stock of money and economizing expedients at any given period does act directly upon the price of commodities would carry me too far, and possess little interest in a practical point of view. It is a subject which has been frequently touched upon, but never subjected to a searching analysis.

D.

The following are some of the leading opinions which the author was desirous of enforcing in his

evidence before the Committee on Banks of Issue during the last session of Parliament, and he takes this opportunity of stating them in a clear and precise form, in consequence of the heterogeneous mass of irrelevant matter with which they are overwhelmed and obscured in the published Report.

- 1.—That the real money of this country consists of the coin, Bank of England, joint-stock, and private bank-notes, and of the banking reserve of the Bank of England.
- 2.—That coin is the true type of money, and that the term money can only be applied, without introducing confusion, to those things which, if withdrawn, must be replaced by an almost equal quantity of coin, and that bank-notes alone fully answer to this test.
- 3.—That bills of exchange, the Clearing-house and analogous contrivances, deposits, barter, truck, &c. &c. are expedients used for economizing money, which they do to a great extent, but that they are imperfect substitutes for money, and cannot wholly replace it.
- 4.—That the efficiency of these expedients in economizing money at any given time mainly depends upon the state of credit; that the

efforts made by issuing bodies, having a tendency to contract the circulation, although not producing any apparent effect in that way, may lead to a nearly similar result by creating more or less of distrust, and thus diminishing the efficiency of the economizing expedients.

5.—That the general level of prices in each country, other things being equal, depends immediately upon the amount of money in that country, which is again fixed by the competition of different countries for the precious metals; and that the rate of interest depends immediately upon the demand for and supply of loanable accommodation in the money-market, and ultimately upon the gain that may be derived from, or the loss that may be avoided by, the use of capital; but that the economizing expedients may produce some temporary effect upon both prices and interest when concentrated by a speculative action on a few commodities, or when, in a high state of credit, bankers are induced to open credits freely, or trade on small reserves.

6.—That the supply of money and all incidents respecting it admit of precise regulation by the Legislature, but that any direct interference with the various economizing expedients, so far as respects their monetary influence, would

be an injudicious infraction of the principles of free trade, and could only produce a balance of evil.

7.—That the issuing of money is the proper province of the sovereign; the use of the expedients for economizing it, the business of individuals; that these functions are distinct in their nature, and that no clear views, sound reasoning, or correct and useful legislation can exist when they are confounded.

8.—That the best form of paper-money would be one in which it should be issued by a single body under the supervision of the Legislature, that body having nothing to do with ordinary banking business. That of the notes thus issued, a certain fixed portion should be invested in securities, and the remainder in gold and silver; and that the notes and coin should be exchanged for each other at the will of the public. The result being that the notes would conform to all the variations of a metallic currency, and would only differ from it in being less costly and more convenient.

9.—That with a system of competing issues, occasional insolvency and discredit on the part of some issuers are almost unavoidable; that even could these be avoided, it would be

almost impossible to attain, with numerous issuers, a perfect conformity to the variations of a metallic currency, and even supposing that difficulty to be overcome, we should only have a state of things equal, but not superior, to what he may reach by a single issue without any difficulty at all.

- 10.—That with the best conceivable currency, commerce would be subject to alternations of excitement and depression, but that its march would be more equable with a better monetary system than with that which now exists.
- 11.—That for the due regulation of a paper-currency, a self-acting test is indispensably requisite, and that no other can be proposed so simple and efficacious as the free action of the public, in the exchange of notes for gold and gold for notes, under the influence of the foreign exchanges.
- 12.—That the recent catastrophes in the monetary institutions of the United States should act as warnings upon the Government and people of this country, and induce them, while there is yet time, to arrest that course of increasing evil, which may otherwise be expected to arise from the continuance in the British Islands of a system so similar to that which